

Message Text

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73-60

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 INR-05 CIAE-00 L-01

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 8302

INFO ALL EC CAPITALS 0356

AMEMBASSY BERN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L EC BRUSSELS 01368

LIMDIS

PASS FRB

E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJECT: EC MEMBER STATES ACT JOINTLY TO SMOOTH OUT
DOLLAR EXCHANGE RATE FLUCTUATIONS

REF: EC BRUSSELS 9877, DECEMBER 13, 1974 (NOTAL)

1. SUMMARY: THE EC MEMBER STATES, NORWAY AND SWEDEN HAVE
REPORTEDLY AGREED TO A JOINT ARRANGEMENT TO SMOOTH OUT THE FLUC-
TUATION OF EUROPEAN CURRENCIES AGAINST THE DOLLAR. AS INDICATED
IN THE REFTEL, THIS ARRANGEMENT WILL LIKELY BE APPLIED IN
A FLEXIBLE MANNER. PARTICIPANTS, HOWEVER, ARE AT LEAST RE-
QUIRED TO CONSULT EACH OTHER BEFORE ALLOWING THE DOLLAR RATE
TO FLUCTUATE MORE THAN ONE PERCENT EACH DAY. TECHNICAL DIFFI-
CULTIES STILL NEED TO BE WORKED OUT BUT SEVERAL PARTICIPANTS
HAVE REPORTEDLY BEGUN TO KEEP THE DAILY EXCHANGE RATE MOVE-
MENTS OF THEIR CURRENCIES AGAINST THE DOLLAR TO WITHIN ONE
PERCENT. EC CENTRAL BANKERS ALSO FAVOR THE TRILATERAL INTER-
VENTION ARRANGEMENT BETWEEN THE US, GERMANY AND SWITZERLAND.
END SUMMARY.

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2. EC COMMISSION AND THIRD COUNTRY MISSION SOURCES HAVE REPORTED TO US THE RESULTS OF THE MEETING OF EC CENTRAL BANK OFFICIALS AT BASEL ON FEBRUARY 10-11. THE MEETING DISCUSSED, INTER ALIA, THE PROPOSED JOINT ACTION TO SMOOTH OUT FLUCTUATIONS OF THE DOLLAR EXCHANGE RATE (SEE REFTEL). A CONSENSUS WAS REACHED BY THE EC MEMBER STATES TO UNDER TAKE THE EFFORT, BUT NOT ALL OF THE EC MEMBER STATES ARE FULLY PARTICIPATING IN THE ARRANGEMENT. HOWEVER, NORWAY AND SWEDEN ARE PARTICIPATING. MOST OF THE CENTRAL BANKS INVOLVED ARE REPORTEDLY NOW INFORMALLY IMPLEMENTING THE ARRANGEMENT, BUT THERE ARE STILL DIFFICULTIES TO BE WORKED OUT BEFORE THE ARRANGEMENT CAN FUNCTION SMOOTHLY. THE UK AND ITALY, FOR EXAMPLE, CURRENTLY ARE NOT FULLY PARTICIPATING IN THE COORDINATION PROCESS AMONG CENTRAL BANKS BECAUSE THEY REPORTEDLY ARE CONCERNED OVER THE COST OF POSSIBLE INTERVENTIONS. BELGIUM, WE ARE TOLD, ALSO HAS SOME PROBLEMS WITH THE ARRANGEMENT, ESPECIALLY OVER ITS POSSIBLE IMPACT ON CURRENCIES WITHIN THE "SNAKE".

3. THE HEYVAERT EXPERT GROUP OF THE EC CENTRAL BANKERS GOVERNORS COMMITTEE IS MEETING ON FEBRUARY 18 IN BASEL TO WORK OUT TECHNICAL PROBLEMS WITH THIS ARRANGEMENT. THE SWISS HAVE NOT YET BEEN OFFICIALLY APPROACHED TO JOIN THE OPERATION BUT WE ARE TOLD THEY WILL BE INVITED TO DO SO SHORTLY.

4. OUR CONTACTS HERE REPORT THAT THE US HAS NOT YET OFFICIALLY REPLIED TO THE PROPOSAL THAT IT PARTICIPATE IN THE ARRANGEMENT. OFFICIALS HERE, HOWEVER, HAVE THE IMPRESSION THAT THE US DOES NOT FAVOR PARTICIPATION AT THIS TIME.

5. THE EC CENTRAL BANKERS GOVERNOR COMMITTEE ALSO TOOK UP THE TRILATERAL ARRANGEMENT BETWEEN THE US, GERMANY AND SWITZERLAND TO SUPPORT THE DOLLAR EXCHANGE RATE AT APPROPRIATE TIMES. THE COMMITTEE REPORTEDLY FAVORED THIS ARRANGEMENT AND THOUGHT IT WAS A CONSTRUCTIVE STEP TOWARD STABILIZING EXCHANGE RATES. NEVERTHELESS, THE COMMITTEE WAS REPORTEDLY CRITICAL OF THE GERMANS' FAILURE TO CONSULT WITH THE OTHER MEMBER STATES BEFORE ENTERING INTO THE ARRANGEMENT. GREENWALD

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